

Message Text

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TREASURY:HJUNZ (DRAFT)

COMMERCE:FSIESSEGER (DRAFT)

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TO ALL DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 082918

E.O. 11652: GDS

TAGS: ETRD, PORG, UNCTAD

SUBJECT: THE COMMON FUND: CURRENT SITUATION AND PROSPECTS

REFS: A) 78 GENEVA 4023 (NOTAL); B) 78 BANGKOK 7508 (NOTAL)

C) 78 STATE 48583 (NOTAL); D) 78 PARIS 3878 (NOTAL)

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H) 77 STATE 266164

1. SUMMARY: THE SECO'D SESSION OF THE UNCTAD COMMON
FUND NEGOTIATION CONFERENCE WAS SUSPENDED NEARLY FOUR
MONTHS AGO AT THE REQUEST OF THE GROUP OF 77. SINCE THEN,
INFORMAL CONSULTATIONS HAVE BEEN UNDERTAKEN ITH KEY OECD
AND G-77 GOVER;MENTS TO DETERMINE WHETHER AND ON WHAT
BASIS THE NEGOTIATIONS MIGHT BE RESUMED. OUR MOST RECENT
CONTACTS WITH UNCTAD SECRETARY GENERAL COREA AND G-77
REPRESENTATIVES INDICATE THAT MAJOR SUBSTANTIVE DIFFERENCES

PERSIST ON THE ISSUES OF DIRECT GOVERNMENTAL CONTRIBUTIONS TO THE COMMON FUND'S CAPITAL STRUCTURE AND THE NEED FOR A "SECOND WINDOW" TO FINANCE NON-STABILIZATION MEASURES. THE RIGID POSITION OF THE G-77 O; THE "SECOND WINDOW" WOULD SEEM TO POSE THE MOST SERIOUS OBSTACLE TO A4 AGREEMENT, WHILE THE G-77 STILL DOES NOT APPEAR TO HAVE ANALYZED THE MERITS OF THE GROUP B PROPOSAL FOR A "FIRST WINDOW" TO

FACILITATE BUFFER STOCK OPERATIONS.

2. IN RECENT DISCUSSIONS WE HAVE SOUGHT TO IMPRESS ON G-77 REPRESENTATIVES THE ECONOMIC MERITS OF THE GROUP B PROPOSAL FOR THE FIRST WINDOW, AS WELL AS OUR SERIOUS RESERVATIONS ON THE SECOND WINDOW. DESPITE THE LACK OF SUBSTANTIVE PROGRESS, MOST COUNTRIES SEEM INTERESTED IN AN EVENTUAL RESUMPTION OF NEGOTIATIONS. WITH RESPECT TO TIMING, WE CONSIDER COREA'S SUGGESTED JUNE DATE UNREALISTIC, IN VIEW OF THE SERIOUS DIFFERENCES WHICH MUST FIRST BE RESOLVED. IN THE MEANTIME, WE INTEND TO PURSUE CONSULTATIONS WITH SELECTED LDC GOVERNMENTS TO IMPROVE THEIR UNDERSTANDING OF OUR COMMON FUND POSITION AND TO SEEK A CONSTRUCTIVE BASIS FOR REOPENING NEGOTIATIONS. THIS CABLE IS INTENDED TO PROVIDE POSTS WITH BACKGROUND INFORMATION. CONFIDENTIAL

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MATION TO BE USED IN DISCUSSIONS WITH HOST GOVERNMENTS. END SUMMARY.

3. SUSPENSION OF THE NEGOTIATIONS: AS REPORTED IN REF F, THE SECOND SESSION OF THE UNCTAD NEGOTIATING CONFERENCE ON A COMMON FUND FOR COMMODITIES WAS SUSPENDED ON DECEMBER 1, 1977 AT THE REQUEST OF THE GROUP OF 77 (THE LDC CAUCUS), ONE DAY BEFORE ITS SCHEDULED CONCLUSION. THE G-77'S REQUEST FOR SUSPENSION FOLLOWED THE REFUSAL OF GROUP B (THE INDUSTRIALIZED COUNTRY CAUCUS) TO MAKE COMMITMENTS IN PRINCIPLE ON TWO FUNDAMENTAL ELEMENTS OF THE G-77 COMMON FUND PROPOSAL: 1) THAT THE FUND HAVE ITS OWN FINANCIAL RESOURCES DERIVED FROM MANDATORY CAPITAL ASSESSMENTS ON GOVERNMENTS; AND 2) THAT THE FUND CONTAIN A "SECOND WINDOW" FOR FINANCING NON-STABILIZATION PROJECTS, IN ADDITION TO THE "FIRST WINDOW" DESIGNED TO FACILITATE THE FINANCING OF THE BUFFER STOCK OPERATIONS OF INTERNATIONAL COMMODITY AGREEMENTS (ICAS). WE ALSO REJECTED THE LDC TACTIC OF DEMANDING PRECONDITIONS FOR FURTHER NEGOTIATION. THE GROUP B COMMON FUND PROPOSAL, (REFS G AND H) WHICH THE U.S. SUPPORTS, WAS FORMALLY PRESENTED ON THE FIRST DAY OF THE NOVEMBER SESSION, BUT THE G-77 FAILED TO GIVE IT SERIOUS CONSIDERATION IN THE ENSUING FOUR WEEKS OF TALKS.

4. RECENT DEVELOPMENTS: WE INDICATED AT THE TIME OF THE SUSPENSION THAT THE U.S. WAS WILLING TO CONSULT WITH OTHER

GOVERNMENTS TO SEEK A CONSTRUCTIVE BASIS FOR RESUMING NEGOTIATIONS IN 1978 (SEE REFTEL F). BUT THE INITIATION OF THAT PROCESS WAS SET BACK IN DECEMBER WHEN THE G-77 FORCED THROUGH THE UN GENERAL ASSEMBLY A PREJUDICIAL AND ACCUSATORY RESOLUTION (REFTEL E) BLAMING A "FEW DEVELOPED COUNTRIES" FOR THE SUSPENSION, AND REITERATING THEIR DEMAND FOR PRECOMMITMENTS TO THE G-77 PROPOSAL. IN MID-JANUARY

UNCTAD SYG COREA TOOK UP HIS MANDATE TO SEEK A BASIS FOR
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RESUMPTION OF THE NEGOTIATIONS. HE UNDERTOOK A SERIES OF BILATERAL CONSULTATIONS WITH KEY COUNTRIES (INDONESIA, MALAYSIA, PHILIPPINES, FRG, FRANCE, UK, CANADA AND THE U.S.) TO TEST THE DIPLOMATIC WATERS FOR POSSIBLE SHIFTS IN POSITIONS DURING THE SUSPENSION. IN HIS WASHINGTON VISIT, FEBRUARY 14-15 (REF. C), COREA ARGUED THAT A COMPROMISE ON THE COMMON FUND WOULD REQUIRE BOTH SOME ELEMENT OF DIRECTLY ASSESSED CONTRIBUTIONS TO THE FUND'S CAPITAL STRUCTURE AND A SECOND WINDOW OPERATION IN AT LEAST LIMITED FORM. IN EARLY MARCH, COREA ARRANGED A RESTRICTED, INFORMAL MEETING IN GENEVA TO SEE IF A SUFFICIENT CONVERGENCE OF VIEWS EXISTED AMONG KEY PARTICIPANTS TO JUSTIFY RESUMING THE NEGOTIATIONS (REF. A). UNDER SECRETARY COOPER ATTENDED THAT MEETING--WHERE IT WAS UNDERSTOOD ALL REPRESENTATIVES WERE SPEAKING IN A PERSONAL CAPACITY--AND ALSO HELD A SERIES OF BILATERALS WITH G-77 REPRESENTATIVES WHILE IN GENEVA. BEGIN FYI: OVER THE NEXT SEVERAL MONTHS, WE ALSO ENVISAGE VISITS BY U.S. OFFICIALS FAMILIAR WITH COMMON FUND ISSUES TO SELECTED G-77 CAPITALS, AS WELL AS OTHER BILATERAL CONTACTS. END FYI.

5. AT THE SAME TIME, THE OECD AD HOC GROUP ON THE COMMON FUND HAS BEEN DISCUSSING ORGANIZATIONAL AND VOTING ARRANGEMENTS IN ANTICIPATION OF A POSSIBLE RESUMPTION OF THE CONFERENCE. A DETAILED PROPOSAL HAS NOT YET BEEN DEVELOPED THOUGH THERE IS GENERAL AGREEMENT IN THE GROUP, THAT SOME FORM OF WEIGHTED VOTING STRUCTURE IS NECESSARY TO REFLECT THE FINANCIAL AND TRADE INTERESTS OF PRODUCERS AND CONSUMERS IN PARTICIPATING ICAS.

6. OUTSTANDING ISSUES: OUR RECENT DISCUSSIONS WITH COREA AND G-77 REPRESENTATIVES INDICATE THAT THE G-77 HAS YET TO MODIFY IN ANY SIGNIFICANT WAY ITS POSITION REGARDING THE
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TWO MAJOR ISSUES ON WHICH THE LAST SESSION FOUNDERED:
THE CAPITAL STRUCTURE OF THE FUND AND THE "SECOND WINDOW."
WITH RESPECT TO THE FIRST ISSUE, THE G-77 CONTINUES
TO ASSERT THAT THE FUND MUST HAVE SUBSTANTIAL FINANCIAL

RESOURCES OF ITS OWN TO SERVE AS A ,CATALYST" FOR FORMING ICAS. THESE FUNDS WOULD BE GENERATED BY DIRECT CONTRIBUTIONS FROM ALL GOVERNMENTS, BUT THE G-77 ASSESSMENT FORMULA WOULD PLACE THE MAJOR FINANCIAL BURDEN ON THE INDUSTRIAL COUNTRIES. IN EFFECT, THE G-77 PROPOSAL WOULD DIVORCE THE NEGOTIATION OF AN ICA FROM ITS FUNDING, WHICH WOULD BECOME THE RESPONSIBILITY OF THE ENTIRE INTERNATIONAL COMMUNITY INSTEAD OF THE PARTICULAR PRODUCER/CONSUMER COUNTRIES DIRECTLY CONCERNED. ON THE "SECOND WINDOW" ISSUES, INDONESIAN AMBASSADOR ALATAS, THE G-77 SPOKESMAN ON THE FUND, TOLD MR. COOPER IT WAS "INCON-

CEIVABLE" THAT THE LDCS COULD ACCEPT A COMMON FUND WITHOUT SUCH A FACILITY. AS IN THE PAST, HOWEVER, ATTEMPTS BY THE G-77 PARTICIPANTS IN THE RECENT GENEVA MEETINGS TO EXPLAIN THEIR POSITION WERE VAGUE AND CONTRADICTORY. THEY REITERATED FAMILIAR COMPLAINTS ABOUT THE DEFICIENCIES OF EXISTING INTERNATIONAL FINANCIAL INSTITUTIONS (IFIS) AND ASSERTED THE NEED FOR A "TOTAL COMMODITY APPROACH" REGARDING NON-STABILIZATION MEASURES. THEIR LIST OF SUGGESTED "OTHER MEASURES" IS EXTENSIVE AND WOULD, IN OUR VIEW, DUPLICATE THE FUNCTIONS OF THE IMF, IBRD, AND OTHER INTERNATIONAL INSTITUTIONS IN THE FIELDS OF EXPORT EARNINGS STABILIZATION AND GENERAL ECONOMIC DEVELOPMENT. THE G-77 ALSO ENVISIONS SECOND WINDOW FUNDING OF NATIONAL STOCKING OF COMMODITIES, WITHOUT REQUIRING THE SANCTION OF MAJOR PRODUCERS AND CONSUMERS IN A COMMODITY ARRANGEMENT. IN JUSTIFYING THE NEED FOR A NEW SO-CALLED "GLOBAL COMMODITY FOCUS" IN THE COMMON FUND, THE G-77 FAULTS THE WORLD BANK FOR HAVING SUPPORTED COMMODITY PRODUCTION PROJECTS WHICH ALLEGEDLY LED TO GLOBAL EXCESS SUPPLIES. TO CORRECT THIS DEFICIENCY, THE G-77 WOULD GIVE THE COMMON FUND A ROLE IN

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INFLUENCING THE LEVEL AND PATTERN OF WORLD COMMODITY PRODUCTION--IMPLYING A DESIRE BY SOME LDCS TO RESTRICT ENTRY OF NEW PRODUCERS.

7. IN SUM,THERE IS AN EVIDENT CONTRADICTION BETWEEN THE EXTENT OF THE ACTIVITIES THE 77 WOULD ATTRIBUTE TO A SECOND WINDOW AND THEIR ASSERTION THAT THE FUNDING INVOLVED WOULD BE SMALL AND THE SCOPE OF THE WINDOW LIMITED.

8. U.S. POSITION: THE GENEVA INFORMAL MEETINGS REVEALED THAT THE G-77 HAVE YET TO FOCUS SERIOUSLY ON THE GROUP B PROPOSAL, AND THAT THERE ARE MAJOR GAPS IN LDC UNDERSTANDING, NOT ONLY OF THE GROUP B PROPOSAL,BUT ALSO OF THE IMPLICATIONS OF THEIR OWN PROPOSAL. REGARDING CAPITAL STRUCTURE, THE GROUP B PROPOSAL TO POOL THE FINANCIAL RESOURCES OF INDIVIDUAL ICAS IS BASED ON THE PRINCIPLES OF JOINT PRODUCER-CONSUMER RESPONSIBILITY FOR FINANCING

INTERNATIONAL BUFFER STOCKS AND OF ICA AUTONOMY IN DETERMINING MARKET INTERVENTION POLICY. IN CONTRAST, THE G-77 PROPOSAL TO ASSESS GOVERNMENTS DIRECTLY FOR CONTRIBUTIONS TO THE CAPITAL STRUCTURE OF THE FUND WOULD RESULT IN PAYMENTS UNRELATED TO A COUNTRY'S PARTICIPATION IN ICAS, AND THUS TEND TO UNDERMINE ICA AUTONOMY. THE POOLING APPROACH COULD PRODUCE SIGNIFICANT FINANCIAL ECONOMIES FOR THE PARTICIPATING ICAS, A POINT WHICH SOME OF THE G-77 PARTICIPANTS IN THE RECENT GENEVA MEETINGS SEEMED NOT TO GRASP. THESE SAVINGS WOULD ARISE BECAUSE THE MARKET PRICES OF THE COMMODITIES COVERED BY THE PARTICIPATING ICAS WOULD NOR-

MALLY NOT RISE AND FALL IN PHASE WITH EACH OTHER. (FOR EXAMPLE, TIN, COFFEE, COCOA AND RUBBER PRICES ARE CURRENTLY BUOYANT, WHILE SUGAR AND COPPER PRICES ARE DEPRESSED.)
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THESE UNSYNCHRONIZED PRICE MOVEMENTS WOULD ENABLE SOME ICAS TO ACQUIRE STOCKS BY USING THE IDLE RESOURCES OF OTHER ICAS WHICH MIGHT BE INACTIVE IN THE MARKET OR SELLING OFF STOCKS. THE POOLING ECONOMIES WOULD PERMIT INDIVIDUAL ICAS TO REDUCE THEIR DEPOSIT REQUIREMENTS FROM MEMBER COUNTRIES FOR FINANCING BUFFER STOCK OPERATIONS. MOREOVER, BY CONSOLIDATING THE OPERATIONS OF THE ICAS AND POOLING THEIR FINANCIAL RESOURCES, THE COMMON FUND SHOULD BE ABLE TO BORROW ON COMMERCIAL MARKETS ON MORE FAVORABLE TERMS THAN COULD AN ICA OPERATING INDEPENDENTLY.

9. WITH RESPECT TO THE "SECOND WINDOW", UNDER SECRETARY COOPER DREW A DISTINCTION BETWEEN OBJECTIVES AND INSTITUTIONAL MECHANISMS. THE U.S. HAS LONG SUPPORTED MANY OF THE "OTHER MEASURES" PROPOSED BY THE G-77 FOR THE COMMON FUND--INCLUDING DIVERSIFICATION, DEVELOPMENT OF NEW USES, AND PRODUCTIVITY IMPROVEMENTS. ALTHOUGH GAPS MAY EXIST IN CURRENT INTERNATIONAL EFFORTS, SUCH GAPS DO NOT ESTABLISH AN A PRIORI CASE FOR A COMMON FUND FINANCING ROLE. MR. COOPER SUGGESTED THAT GAPS MAY EXIST IN COVERAGE OF THREE CATEGORIES OF NON-STABILIZATION MEASURES: A) PRODUCT IMPROVEMENT FOR MARKETING PURPOSES; B) IMPROVEMENT OF MARKETING TECHNIQUES; AND C) BASIC PRODUCTIVITY IMPROVEMENTS IN THE PRIMARY PRODUCTION OF A COMMODITY. OTHER SORTS OF "OTHER MEASURES", INCLUDING DIVERSIFICATION OUT OF A PRODUCT, INVESTMENT IN MANUFACTURING FACILITIES, AND OTHER GENERAL DEVELOPMENT CATEGORIES ARE BEING HANDLED EFFECTIVELY BY EXISTING INSTITUTIONS. FOR THOSE ACTIVITIES WHICH MAY NOT BE ADEQUATELY COVERED, INDIVIDUAL PRODUCER-CONSUMER ORGANIZATIONS--NOT THE COMMON FUND--APPEAR TO BE THE MOST EFFECTIVE WAY TO FILL THE GAP. ICAS ARE IN A BETTER POSITION TO IDENTIFY THE GLOBAL PROBLEMS OF PARTICULAR COMMODITY MARKETS AND TO PROVIDE APPROPRIATE FUNDING AND PROGRAM GUIDANCE. EXISTING IFIS AND BILATERAL AID CAN ASSIST

THE COMMODITY ORGANIZATIONS IN ADDRESSING THESE GLOBAL
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NEEDS. IN SUM, WE DO NOT BELIEVE THERE IS A CASE FOR
A SECOND WINDOW IN THE COMMON FUND. WE WOULD ADD THAT
THE ADMINISTRATION HAS HAD DIFFICULTY GAINING APPRO-
PRIATIONS FOR EXISTING IFIS WITH PROVEN RECORDS OF
ACCOMPLISHMENT. CONGRESS WOULD CERTAINLY RESIST APPROV-
ING SUMS FOR A NEW INSTITUTION--EVEN ON A VOLUNTARY BASIS--
AND WE WOULD NOT INTEND TO ASK FOR SUCH A CONTRIBUTION.

10. PROSPECTS FOR RESUMPTION: THE RECENT INFORMAL
DISCUSSIONS IN GENEVA FAILED TO BRIDGE THE GAP BETWEEN THE

POSITIONS OF GROUP B AND THE G-77. NEVERTHELESS, BOTH
SIDES APPEAR WILLING TO CONTINUE WORKING TOWARD A RESUMP-
TION OF THE NEGOTIATIONS LATER THIS YEAR. THE U.S. STILL
CONSIDERS THAT THE GROUP B PROPOSAL OFFERS POTENTIAL BENE-
FITS FOR BOTH PRODUCERS AND CONSUMERS AND CAN SERVE AS A
BASIS FOR FRUITFUL NEGOTIATIONS. WE WILL THEREFORE CON-
TINUE THE EFFORT TO EXPLAIN OUR PROPOSAL AND ITS ADVANTAGES
TO G-77 MEMBERS. WE HOPE THEREBY TO ENCOURAGE KEY LDC
GOVERNMENTS TO MODIFY THE RIGID, RHETORICAL STANCE WHICH
CHARACTERIZED THE LAST NEGOTIATING SESSION AND TO TURN
INSTEAD TO A MORE SERIOUS EFFORT TO ANALYZE THE ECONOMIC
AND TECHNICAL ISSUES WHICH NEED TO BE RESOLVED. WE WILL
PURSUE THIS EFFORT OVER THE NEXT FEW MONTHS THROUGH
BILATERAL DISCUSSIONS IN KEY LDC CAPITALS AND--WHERE
POSSIBLE--AT INTERNATIONAL GATHERINGS WHICH ATTRACT KNOWLED-
GEABLE OFFICIALS FROM CAPITALS. WE WILL ALSO CONTINUE TO
WORK WITH THE OTHER OECD GOVERNMENTS, AS WE DID PRIOR TO
THE LAST NEGOTIATING SESSION, TO PREPARE FOR POSSIBLE
RESUMPTION OF THE NEGOTIATIONS. AS FOR TIMING, COREA HAS
PRESSED FOR RESUMPTION IN JUNE, BUT WE HAVE NOT DETECTED
ANY SUPPORT ELSEWHERE FOR SUCH AN EARLY DATE. IN VIEW
OF THE CURRENT ABSENCE OF A NECESSARY CONVERGENCE OF VIEWS
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ON THE BASIC ISSUES, IT WOULD APPEAR UNREALISTIC TO EX-
PECT A RESUMPTION BEFORE THE FALL, AT THE EARLIEST.

11. ACTION REQUESTED: POSTS IN G-77 COUNTRIES SHOULD
DRAW ON THE ABOVE BACKGROUND INFORMATION AS APPROPRIATE IF
THE SUBJECT ARISES IN DISCUSSIONS WITH HOST GOVERNMENTS.
WE WOULD ALSO APPRECIATE REPORTING ON CURRENT HOST
GOVERNMENT VIEWS REGARDING BOTH SUBSTANTIVE ASPECTS AND
PROSPECTS FOR REVISIONS IN THE G-77 POSITION. IN PARTIC-
ULAR, IT WOULD BE USEFUL TO LEARN THE VIEWS OF THOSE
OFFICIALS IN LDC CAPITALS WHO ACTUALLY DECIDE COMMON FUND
POLICY. FYI: PLANS FOR BILATERAL CONTACTS WITH GOVERN-

MENTS WILL BE CABLED SEPARATELY. END FYI.

12. TALKING POINTS: POSTS MAY EMPLOY THE FOLLOWING
TALKING POINTS IN REPLYING TO INQUIRIES ON THE COMMON FUND:

-- THE U.S. IS PREPARED TO PARTICIPATE IN RESUMED
COMMON FUND NEGOTIATIONS IF THERE IS A REASONABLE PROSPECT
FOR SUCCESS. WE BELIEVE A MUTUALLY BENEFICIAL COMMON
FUNDING ARRANGEMENT TO FACILITATE THE FINANCING OF
INTERNATIONAL BUFFER STOCK ARRANGEMENTS CAN BE DEVELOPED
IF ALL PARTIES ARE READY TO NEGOTIATE SERIOUSLY.

-- AT THE LAST NEGOTIATING SESSION, GROUP B TABLED A
CONSTRUCTIVE PROPOSAL FOR AN EFFECTIVE COMMON FUND, IN
KEEPING WITH OUR COMMITMENT AT THE CONFERENCE ON INTER-

NATIONAL ECONOMIC COOPERATION (CIEC). GROUP OF 77
WILLINGNESS TO EXAMINE OUR PROPOSAL SERIOUSLY WILL BE
ESSENTIAL FOR MEANINGFUL PROGRESS IN RESUMED NEGOTIATIONS.

-- THE U.S. CANNOT AGREE TO UNILATERAL CONCESSIONS ON
MAJOR ISSUES OF SUBSTANCE AS A PRICE FOR RESUMPTION.

-- THE GROUP B PROPOSAL TO POOL THE FINANCIAL RESOURCES
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OF INDIVIDUAL ICAS EMBODIES THE PRINCIPLES OF ICA
AUTONOMY AND JOINT PRODUCER/CONSUMER RESPONSIBILITY FOR
THE FINANCING OF INTERNATIONAL COMMODITY STABILIZATION
MEASURES. THE G-77 PROPOSAL FOR LARGE-SCALE, DIRECTLY
ASSESSED GOVERNMENT CONTRIBUTIONS TO THE CAPITAL
STRUCTURE OF THE FUND WOULD UNDERMINE THESE PRINCIPLES AND
THE EFFECTIVENESS OF THE FUND.

-- WE RECOGNIZE THAT, IN ADDITION TO BUFFER STOCKING
MEASURES, THERE MAY BE SCOPE FOR IMPROVEMENT OF
INTERNATIONAL EFFORTS IN REGARD TO CERTAIN NON-
STABILIZATION MEASURES. HOWEVER, WE CONSIDER THAT THIS
NEED CAN BE ADDRESSED MOST EFFECTIVELY THROUGH EXISTING
INTERNATIONAL FINANCIAL INSTITUTIONS AND THROUGH
INDIVIDUAL COMMODITY ARRANGEMENTS. WE SEE NO CASE FOR A
FINANCING ROLE FOR THE COMMON FUND IN THIS FIELD.

-- CONTINUED G-77 INSISTENCE ON A SECOND WINDOW TO
FINANCE GENERAL DEVELOPMENT MEASURES COULD JEOPARDIZE
OUR ABILITY TO SUPPORT ANY TYPE OF COMMON FUND. COOPER

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